

Market in Minutes

Dublin Logistics Market

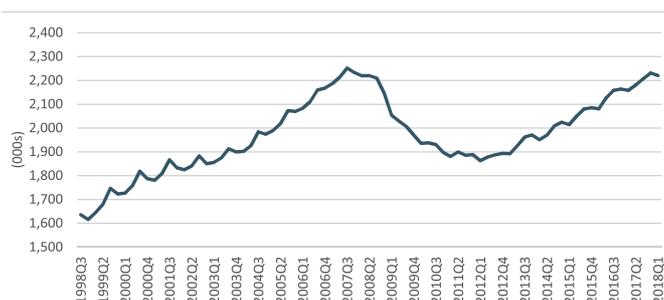
Q2 2018

Economic Overview

Ireland's economy continues to perform well with output rising faster than in any other EU country. Underpinning this is a strongly performing labour market. In the last twelve months alone, more than 62,000 new jobs were created across a broad range of sectors. Unemployment has fallen to 5.1%, its lowest rate in over 10 years. This has stimulated competition for talent, and as a result, average earnings have been rising for over four years. At the same time jobs growth has provided the fiscal space for tax reductions in consecutive budgets, helping to boost household disposable incomes by 5.2% in real terms over the last twelve months.

On the back of sustained improvements in the labour market, the strong performing consumer economy continues to drive the circulation of goods throughout the country. Data from the Road Freight Transport Survey show that in 2017 over 147 million tonnes of goods were transported by road. This is an increase of almost 4% from 2016. Furthermore, the average number of goods vehicles (greater than 2 tonnes unladen weight) increased by 10%. More recently, Dublin Port saw Cargo volumes grow by 5.2% year on year in the first half of 2018. Analysing the number of goods passing through Dublin Port and the volume of goods being transported around the country can serve as a strong leading indicator of demand for logistics space in Dublin. As more goods are being transported throughout Ireland, we expect demand to remain strong for logistics space.

FIGURE 1
Total Employment

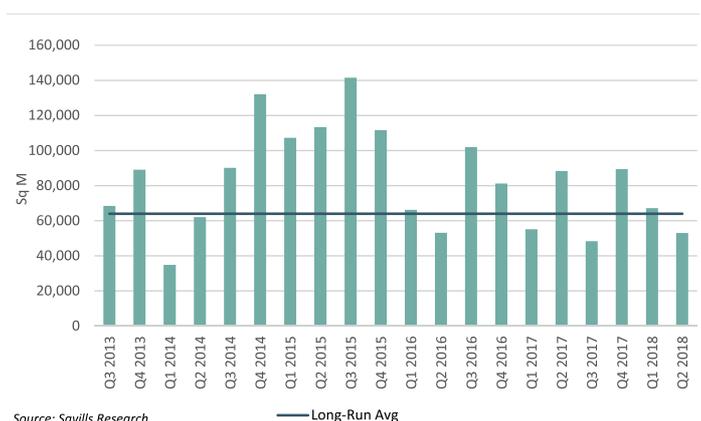


Source: CSO

Market Trends

Take-up of logistics space in Dublin for Q2 2018 was 53,000 sqm, the third lowest quarterly take-up figure over the last five years and down 21% on the 67,000 sqm recorded in Q1 2018. Despite sustained strong levels of demand from both occupiers and investors, low vacancy rates continue to constrain take-up in the market. One fifth of Q2 take-up was accounted for by new builds and this is expected to increase with 37,000 sqm of speculative space either completed or due for completion before year end. Lettings accounted for 60% of Q2 transactions with the largest transaction being the letting of a 9,423 sqm facility at Citywest Business Campus.

FIGURE 2
Logistics Take-Up



Source: Savills Research

Data Centres

Over €1 billion of data centre projects were announced in Q2 2018, bringing the total planned investment in such facilities by 2021 to €9.3 billion. Amazon, Google, CyrusOne and Crag Digital were among the companies to announce 10 new investments between April and June this year. According to Host in Ireland and Bitpower, 46 data centres are currently in operation in the Republic with the largest cluster in southwest Dublin. An additional

eight new facilities are under construction with a further 12 having received planning permission. Ireland's temperate climate is one of the key attractions of Ireland to data centre operators and developers together with the provision of adequate power and fibre connectivity. Total data centre capacity in Ireland is currently 483 megawatts with a further 138 megawatts currently under construction. Assuming the continued availability of power, data centre capacity is expected to grow to more than 1,200 megawatts by 2024. The projected expansion of the data centre sector over the next 5 – 6 years will result in increasing levels of demand for industrial zoned land with the appropriate infrastructure.

Rents and Yields

Latest MSCI data show that ERVs for a sample of prime logistics properties rose by 4.8% in the year to June and we believe headline rates currently stand at approximately €100 per sqm per annum. Despite development costs outweighing the relative value at which developers can provide new space to owner-occupiers, current prime yields of 5.00 - 5.25% make the build-to-rent option viable.

OUTLOOK

Of the 37,000 sqm of speculative space built or due to be completed by the end of 2018, almost 50% is already taken up or reserved. This reflects the current strong levels of demand for prime logistics space with convenient access to the M50, Dublin airport and the Port Tunnel. As a result, we expect to see the delivery of more new space in 2019, not just by the developers who are currently active, but also by others who are alive to the opportunity and have already secured planning permission.

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